ISSUE DATE: September 29, 1995

DOCKET NO. G-008/GR-93-1090

ORDER ACCEPTING COMPLIANCE FILING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Joel Jacobs	Chair
Tom Burton	Commissioner
Marshall Johnson	Commissioner
Dee Knaak	Commissioner
Don Storm	Commissioner

In the Matter of the Application of Minnegasco, a Division of Arkla, Inc., for Authority to Increase Its Rates for Natural Gas Service in Minnesota

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PROCEDURAL HISTORY

On October 24, 1994, the Commission issued its FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER in the above-captioned rate case. In the Ordering Paragraphs of that Order the Commission set further filing requirements regarding the Company's conservation improvement program (CIP) and the financial condition of Minnegasco's parent company, NorAm.

In Ordering Paragraph No. 10, the Commission required Minnegasco to file its calculation of the conservation cost recovery charge (CCRC)[1] after final rates are approved by the Commission:

> Within 60 days of the date of this Order, the Company shall submit a compliance filing showing the calculation of the CIP CCRC based on final and interim rates approved by the Commission. Minnegasco's evaluation of CCRC revenues collected during the interim rate period began February 1, 1994, and will end on the date that Minnegasco implements final rates.

In Ordering Paragraph No. 11 (a) and (b), the Commission required Minnegasco to submit further filings regarding the possible effect of NorAm's highly leveraged financial condition on Minnegasco:

> Within 60 days of the date of this Order, the Company shall file the following information:

[1] The CCRC, which is used to calculate the level of revenues credited to the tracker account, is calculated by dividing test year CIP expenses by test year sales units. The rate per MCF is used to credit revenues to the tracker, based on actual MCF sales.

a. Minnegasco balance sheets for calendar years 1991, 1992, and 1993, prepared in accordance with generally accepted accounting principles;

b. cash flow statements for Minnegasco for calendar years 1991, 1992, and 1993, prepared in accordance with generally accepted accounting principles and providing sufficient detail in every category to identify cash transactions between Minnegasco and NorAm;

c. an explanation of NorAm's strategy for improving its capital structure, including the strategy's effect on dividend policy, and including NorAm's target equity ratios for the next three years.

On June 2, 1995, Minnegasco submitted its compliance filing.

On June 20, 1995, the Department of Public Service (the Department) filed comments recommending acceptance of the compliance filing.

The matter came before the Commission for consideration on September 21, 1995.

FINDINGS AND CONCLUSIONS

I. CIP RECOVERY CHARGE

In its filing, Minnegasco's test year CIP expenses are divided by gas throughput to produce the CCRC, which is calculated as follows:

CIP expenses	$6,111,721
divided by:	
Therm throughput	136,234,600
Rate	.04486

The CIP tracker balance will be based on this CCRC calculation until rates are set again in Minnegasco's next rate case.

The Commission agrees with the Department that Minnegasco's CCRC is properly calculated, and that the CCRC filing is in compliance with the requirements of the October 24, 1995, Order.

II. BALANCE SHEETS AND CASH FLOW STATEMENTS

Minnegasco filed balance sheets and cash flow statements for the years 1991, 1992, and 1993. The cash flow statements include Minnegasco's investing and financing activities in these years.

The Commission finds that Minnegasco's balance sheets and cash flow statements are prepared in accordance with general accounting principles and are in compliance with the Commission's October 24, 1995, requirements.

III. NORAM'S FINANCIAL STRATEGY

According to Minnegasco's filing, NorAm's strategy to improve its highly leveraged capital structure is three-pronged: 1) repayment of debt; 2) issuance of additional equity; and 3) improvement of cash flow through increased earnings and controlled capital expenditures.

Since 1990, NorAm has reduced its debt from $2.2 billion to $1.7 billion by retiring debt as well as repaying normal debt obligations.

In 1994, NorAm received Securities Exchange Commission approval to sell an additional $100 million of common stock to the public. NorAm has also facilitated the sale of stock to distribution customers, current stockholders, and employees.

NorAm improved its cash flow situation by reducing its annual dividend from $1.08 per share to $0.28 in 1992.

Minnegasco stated that NorAm plans to focus in the future on improving its profitability and controlling capital spending. NorAm plans to make capital investments to maintain reliability, safety, and growth for its pipeline and distribution operations. In proprietary filings, Minnegasco discussed NorAm's dividend policy further.

The Commission agees with the Department that Minnegasco's explanation of NorAm's financial situation and strategies complies with the Commission's requirements.

IV. CONCLUSION

The Commission finds that Minnegasco's June 2, 1995, compliance filing meets the requirements of the Commission's October 24, 1994, Order. The Commission will accept the compliance filing.

ORDER

1. The Commission accepts Minnegasco's June 2, 1995, compliance filing.

2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)